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Report

drawn up on behalf of the Committee on Budgets

on the proposal from the Commission of the  
European Communities to the Council (Doc. 214/78)  
for a Regulation amending the Financial Regulation  
of 21 December 1977 applicable to the General  
Budget of the European Communities

Rapporteur: Mr M. SHAW

1.2.1



By letter of 28 June 1978, the President of the Council of the European Communities requested the European Parliament to deliver an opinion on a proposal from the Commission of the European Communities to the Council for a regulation amending the Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities.

The President of the European Parliament referred the proposal to the Committee on Budgets on 3 July 1978.

The Committee on Budgets confirmed the mandate of Mr Michael SHAW as rapporteur.

The Committee on Budgets considered the proposal at its meeting of 2 October 1978 and adopted the motion for a resolution and the explanatory statement by 10 votes in favour with 3 against.

Present : Mr Lange, chairman; Mr Bangemann, vice-chairman; Mr Shaw, rapporteur; Mr Amadei, Lord Bessborough, Lord Bruce of Donington, Mr Dankert, Mr Delmotte (deputizing for Mr Würtz), Mr Hamilton, Mr Hansen, Mr Radoux, Mr Scott-Hopkins and Mr Spinelli.

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The Committee on Budgets hereby submits to the European Parliament the following motion for a resolution together with explanatory statement :

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposal from the Commission of the European Communities to the Council for a regulation amending the Financial Regulation of 21 December 1977 applicable to the General Budget of the European Communities

The European Parliament

- having regard to its resolutions of 14 December 1976 and 13 December 1977<sup>1</sup>,
  - having regard to the reports of the Committee on Budgets dealing with the Financial Regulation (Doc. 305/75, Doc. 296/76, Doc. 469/76, Doc. 168/77 and Doc. 434/77),
  - having regard to the outcome of the conciliation procedure on the Financial Regulation as described in the report of the Committee on Budgets (Doc.434/77),
  - having regard to the proposal of the Commission<sup>2</sup>,
  - having regard to the conciliation procedure on the new borrowing facilities (COM(78) 201 final),
  - having **been** consulted by the Council (Doc. 214/78),
  - having regard to the report of the Committee on Budgets (Doc. 353/78),
- (a) considering the Financial Regulation to be of fundamental importance to the efficient management of Community finances, the implementing of the budget and the presenting and auditing of accounts;
- (b) recalling changes brought about by the Treaty of 22 July 1975, which came into force on 1 June 1977;
- (c) appreciating that urgency attaches to the early completion of the revision of the Financial Regulation;
- (d) considering that special importance attaches to the provisions relating to the authorization to effect borrowing and lending operations, the presentation of research and investment appropriations and the arrangements for appropriations carried over;

<sup>1</sup> OJ No. C 6, 10.1.1977, p. 18 and OJ No. C 6, 9.1.1978, p. 19

<sup>2</sup> OJ No. C 160, 6.7.1978, p. 11

- (e) recognizing that it is essential that this proposal for a regulation be adopted before, or, at the latest, at the same time as, the adoption of the 1979 budget;
1. Believes that the Commission's proposal gives effect to undertakings entered into during the 1977 conciliation procedure in regard to the Financial Regulation, improves budgetary control and adds to budgetary clarity.
  2. Approves, therefore, the proposal put forward by the Commission.
  3. Undertakes to return to a further examination of the Financial Regulation in the light of fresh proposals which the Commission will put forward as a result of the opinion of the Court of Auditors on certain aspects.

EXPLANATORY STATEMENTThe Financial Regulation - what it is

1. The Financial Regulation is a document which is provided for in Article 209 of the EEC Treaty. It concerns the preparation of the budget, its presentation, its implementation and its control. It explains in broad terms what the layout of the budget should be. It explains the procedure for the closing of accounts, the making of cash advances and conditions the whole budgetary procedure.

Last year's revision of the Financial Regulation

2. Following a request from Parliament, the Commission submitted on 19 May 1976 a proposed series of amendments<sup>1</sup> to the Financial Regulation. The Committee on Budgets considered these proposals very closely and its report<sup>2</sup> was approved by Parliament on 14 December 1976<sup>3</sup>. The Commission submitted to the Council on 10 March 1977 a revised proposal<sup>4</sup> which took account of Parliament's report and accepted the great majority of the amendments.

3. Council's response was most unsatisfactory because it accepted only very minor amendments. In this Explanatory Statement, it is hardly necessary to go into the details of the conciliation procedure which was protracted but successful; details of the discussions in question are set out in Document 434/77. Following the outcome of the conciliation procedure, the way was cleared for the adoption of a Financial Regulation which was much more up-to-date, which reflected the improved budgetary powers of Parliament that resulted from the Treaty of 22 July 1975, and which generally clarified the position in regard to Community financial procedures.

4. Certain matters were left over, however. These included the reflecting in the Financial Regulation of provisions relating to the budgetisation of borrowing and lending operations and the effecting of certain revisions which would take account of the Opinion of the Court of Auditors on the Financial Regulation.

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1) Doc. 166/76 and Doc. 360/76

2) Doc. 469/76

3) O.J. C 6, 10/1/76

4) COM(77) 59 fin.

### The present proposal

5. The present proposal deals with three issues:

- the improvement of the budgetary control of borrowing and lending operations;
- the simplification of the structure of the part of the budget dealing with research and investment expenditure, and
- a tidying up of the arrangements regarding appropriations carried over.

### Budgetization of borrowing and lending operations

6. The European Parliament and its Committee on Budgets have consistently called for the budgetization of borrowing and lending operations:

- (i) to conform with Article 199 of the EEC Treaty, which specifies that all items of revenue and expenditure of the Community should be in the budget;
- (ii) to give to the budgetary authority the responsibility for authorizing such operations, so as to enhance the degree of political control;
- (iii) to strengthen the transparency of such operations so that they would clearly be shown in one document.

7. The Committee on Budgets has not limited itself to the expression of demands for this. It has gone as far as to suggest the form in which these loans should be budgetised. <sup>(1)</sup>

8. The Committee has called for a separate part of the budget which should provide information concerning the total amounts of borrowing and lending, the annual repayments to the Community and from the Community to the original lenders, the annual interest payments to the Community and from the Community to the original lenders, and the annual instalments to and from the Community. At the same time, this would constitute authorization to raise loans, lend out funds thus received and pay off the capital interest and costs annually.

9. This part of the budget would cover the Exim Bank loans, the balance of payment loans, Euratom loans as well as those for the generation of investments.

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<sup>(1)</sup> See reports by Mr Bangemann (PE 52.571), Mr Spinelli on the investment loans (PE 52.694) and the working document of Lord Bruce of Donington (PE 52.449) for the ad hoc working group on inter-institutional questions.



10. The Commission, in its proposals, has accepted Parliament's view and is suggesting amendments to the Financial Regulation as a consequence. It has been particularly useful to your rapporteur to be able, in assessing the Commission's proposals, to see the practical application of that proposal in the preliminary draft budget for 1979. Here the Commission has produced a part 2, "Borrowing and lending operations", in the form indicated by these present proposals. The Committee on Budgets has already welcomed this presentation.

11. In part 2, the distinction is drawn between Title 1 (sums receivable) and Title 2 (sums payable). Title 1 is divided up into:

Chapter 10    Loans raised  
Chapter 11    Repayment of loans granted  
Chapter 12    Recovery of interest  
Chapter 13    Recovery of operating costs incurred in borrowing and lending operations.

Title 2 is divided up into:

Chapter 20    Loans granted  
Chapter 21    Repayment of loans raised  
Chapter 22    Payment of interest  
Chapter 23    Payment of costs incurred in borrowing and lending operations.

12. This relatively simple formula is thus easily adaptable for whatever lending and borrowing activities are decided upon. It is transparent, comprehensible and it improves political control.

13. The amendments to Articles 1 (1 and 4), 3 (2), 6 (4), 7, 12 (1), 15 (1 and 5), 16 and 73 simply put into effect these changes.

#### Political consideration

14. During the conciliation procedure with Council on the investment loans, it has become apparent that the question of the budgetisation of those loans cannot be divorced from the general form of budgetisation which is the subject of these proposals.

15. That is why the Committee on Budgets is submitting to the European Parliament very quickly its report on these proposals, so that, at the conclusion of the conciliation procedure, it will be possible to reach agreement on both the investment loans proposal and these changes to the Financial Regulation.

16. The Committee will undoubtedly bear in mind that, in any case, the Financial Regulation will be periodically reviewed - the next review scheduled for two years time. This will enable any remaining loopholes to be dealt with at that stage. However, as regards the budgetisation of loans, the major principles are now agreed between the Commission and Parliament, and a practical formula is now available.

17. The Council should also bear in mind that the form of budgetisation which provides for the necessary appropriations to be entered in successive budgets, and which represents a clear authorisation for the Commission to contract and repay loans, thus provides a clearer and more convincing guarantee for the original lenders, which should thus contribute to the successful operation of these borrowing and lending activities.

#### Research & investment appropriations

18. That part of the budget which deals with research and investment appropriations has, over the years, been presented in a manner which, to say the least, was not a model of clarity. Efforts have been made to simplify and improve the presentation. However, last year when the draft budget was being examined it became apparent that the presentation of these appropriations gave rise to some confusion. The Committee on Budgets feels that, in all the circumstances, the presentation now proposed by the Commission goes a long way towards adding to budgetary transparency and clarity and ought, therefore, to be approved. In brief, it consists of abandoning the practice of dividing such line into sub-items with a breakdown of costs for each programme. Instead the Commission suggests placing these cost-breakdowns in an annex. The Commission also explains why it is not distinguishing between commitments or payments for the operating costs of these programmes. The Committee on Budgets is aware that, within two years, a further revision of the Financial Regulation will be effected.

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#### Appropriations carried over

19. In previous years, Parliament was very perturbed by the scope for the carrying over of appropriations from one financial year to another. This was so because it was possible to carry over appropriations and then to transfer them to other lines during the course of the following year. In this way, the wishes of Parliament as expressed in the budget as adopted could be thwarted. However, during the course of last year's revision of the Financial Regulation, Parliament won the right to the last word on transfers of a non-compulsory nature. Therefore, its fears in regard to the carry over procedure have been considerably allayed.

20. The proposal now made by the Commission to have the deadline of one month within which Council has to pronounce on carry over applications extended to six weeks appears to be acceptable because consultation of the European Parliament is involved and a timetable which parallels that applying to transfers appears to be reasonable and appropriate.

Future revision of the Financial Regulation

21. The Committee on Budgets recalls that, during the course of the months ahead, the Financial Regulation will be looked at again in the context of the examination of the Commission's proposal arising from the Opinion of the Court of Auditors on the Financial Regulation. In any case, a general review of the Financial Regulation is scheduled for 2 years' time.

